



ANNUAL REPORT

08



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MEPP PROFILE

The Management Employees Pension Plan (MEPP) was originally established in 1972 as the Public Service Management Pension Plan for management employees of the Government of Alberta and approved agencies, boards and commissions.

In 1993, new legislation was passed that divided the Plan into two separate plans: the Public Service Management (Closed Membership) Pension Plan (Closed Plan) and the MEPP.

Members who left the Plan or retired before August 1, 1992 and those who had 35 years of pensionable service by August 1, 1992 became members of the Closed Plan. Funding for the Closed Plan is the responsibility of the Government of Alberta. Active members as of August 1, 1992 became members of the MEPP.

The MEPP is a contributory defined benefit plan, which means members contribute to the Plan and will receive a formula-based pension determined by their average pensionable salary and years of pensionable service. As of December 31, 2008 the MEPP served 19 employers, 5,244 active members, 675 inactive members and 2,905 pensioners. A summary description of Plan provisions is in Note 1 of the financial statements. An overview of the choices and benefits under the Plan is provided in the MEPP Members' Handbook (see the MEPP website at www.mepp.ca).

The Board

Governance Statement

The Minister of Finance and Enterprise (the Minister) is the statutory administrator of the Management Employees Pension Plan (Plan) and holds all assets of the Plan in trust to provide benefits pursuant to the Plan rules and to meet Plan costs.

The *Public Sector Pension Plans Act* sets out the main objectives of the Management Employees Pension Board (Board) with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions for funding purposes;
- recommends general policy guidelines for the investment and management of the Plan's assets (*Statement of Investment Policies and Procedures* [SIPP]);
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan; and
- reviews administrative decisions pursuant to a delegation from the Minister.



2008 Board Members

Standing:

David Lawson
Don Smaltwood
Jim Hinks*
Joe Doolan*
Scott Kashuba

Seated:

Nancy Bochar
Blake Bartlett (Vice-chair)
Rod McDermid (Chair)
Jan Loree Symon

*External Investment
Committee Members

Board Members

- The Board has seven members: three employee nominees, three persons nominated by Government and one non-voting member nominated by the Public Service Commissioner's Office.
- The offices of Board Chair and Vice Chair rotate every two years between Government and employee nominees.

Board Vision

Promised benefits will be paid.

Board Mission

To provide prudent governance of the Management Employees Pension Plan.

Board Values and Principles

- Plan assets will be managed effectively and efficiently in compliance with governing legislation.
- All decisions made by the Board will be financially prudent, ensuring the overall financial health of the Plan is maintained and costs charged to the Plan are reasonable and equitable.
- Governance of the MEPP and Board will be consistent with governing legislation for the benefit of the members.
- The Board members embrace the prudent person concept in exercising good judgment on behalf of beneficiaries.

2008 MESSAGE FROM THE BOARD

The global financial crisis and corresponding global recession in 2008 led to significant market fluctuations that affected most pension funds including the Management Employees Pension Plan (MEPP). Plan asset values fell during the year, ending 2008 with a net loss of -17.6%.

As stewards of your pension plan, our primary focus is monitoring the management of the MEPP and making recommendations to the Minister to help ensure your promised pension benefits will be paid. Short-term market fluctuations occur in every pension plan and can be managed over time. The MEP Board looks to long-term performance in its investment strategy. In addition, the MEPP investments are well diversified, which helps to mitigate the impact of market volatility.

Based on current market conditions and the resultant fall in asset values, the MEP Board, in consultation with the Minister, will be proactively reviewing a valuation of the Plan as of December 31, 2008, in order to ensure adequate funding and the stability of the plan. The Board will provide the results of this valuation, and its recommendations for meeting the Plan's liabilities, to the Minister.

Plan Investments

With the assistance of its Investment Committee, the Board monitors the Plan's investment returns on a quarterly basis and reviews the asset mix annually. The Board also works with Alberta Investment Management Corporation (AIMCo), the Plan's investment manager, and our external consultant, API Asset Performance Inc., on behalf of the plan sponsor and its members, to ensure the Plan is well positioned to meet its liabilities and that associated risks are both identified and addressed.

The MEP Board conducts regular reviews of the *SIPP* which describes the investment objectives of the MEPP Fund, and this is adjusted as necessary to ensure it continues to reflect an appropriate and prudent level of risk.

In 2008, the Board initiated an Asset Liability Modelling (ALM) Study. This study will form the basis for reviewing the asset mix structure, performance and risk targets in the *SIPP*. The recommended changes to the *SIPP*, if any, will be provided to the Minister for approval.

Governance

The MEP Board has made progress on governance initiatives this year. The Board's Code of Conduct and Ethics policy was updated to be in line with the Alberta Government Public Agencies Governance Framework and best practice standards. This policy requires each Board member to declare at the start of each Board meeting and annually, that he/she adhered to the Code of Conduct and Ethics policy. Each Board member confirmed he/she had no actual or potential conflicts in 2008.

The Board and Investment Committee members individually and collectively continued to enhance their knowledge of pension, investment and governance-related matters through educational conferences, seminars and in-house sessions. Board members' knowledge and skills are further supplemented by the hiring of external consultants when required. This ensures the Board has the necessary knowledge to effectively carry out its roles and responsibilities on behalf of the Plan and its members.

The Board also completed a self-evaluation of its activities. Going forward, results from this evaluation will be used for strategic planning, education, Board reappointments and to identify and improve Board competencies.

Additional achievements in the past year included signing an Operating Protocol with Alberta Finance and Enterprise and Alberta Pensions Administration Corporation (APA), our plan administrator. This document clarifies plan governance, and the roles and responsibilities of the aforementioned parties and the MEP Board.

In 2008, the Board also:

- revised its Business Plan (the plan has been updated for 2009-2011 and is available at www.mepp.ca);
- reviewed several policies, as per the policy review guidelines (all necessary amendments were completed); and
- regularly communicated with and provided feedback to representatives of Alberta Finance and Enterprise on issues of governance and funding requirements.

Looking Forward

In 2009, the MEP Board's focus includes:

- conducting an actuarial valuation of the Plan as at December 31, 2008 and providing recommendations on plan funding to the Minister;
- finalizing an Asset-Liability Modelling Study of the Plan and to review and recommend amendments to the Plan's asset allocation policy, performance and risk targets in its *SIPP*; and
- working with APA to define, execute and implement an updated service level agreement.

Board members will enhance their knowledge and skills through continuing education and work with the Minister, AIMCo, APA, and other business partners to ensure the MEP Board meets its objectives.

2008 Board

In accordance with best practice standards, the Board tracks the attendance and participation of each Board member. The MEP Board is transparent in its operation, and as such, the Board has tracked Board member remuneration. Please see the Board Information on page five for the Board's attendance and remuneration reports.

The success of the Board depends on the support from others. The Board would like to acknowledge and extend its gratitude to the two external members of our Investment Committee—Jim Hinks and Joe Doolan—as well as Alberta Finance and Enterprise, AIMCo and APA for their contributions in supporting the Board throughout 2008.

Finally, I would like to take this opportunity to offer my gratitude and appreciation to APA Plan Board Services, in particular, Lesley Bowering, Christa Taylor, Marianne Wright, Lynn Andrews and Liz Doughty for their support and services in 2008; and to David Lawson as Investment Committee Chair. Nancy Bochard, the Investment Committee Vice Chair, has decided to step down from that role; her services and support during the year are noted and appreciated. Don Smallwood replaces Nancy Bochard in the role of MEP Board Investment Committee Vice Chair.

In closing, I would also like to extend my appreciation and gratitude to all our Board members, and look forward to working with them in 2009.

Original signed by

Rod McDermid
Chair, Management Employees Pension Board

BOARD INFORMATION

Attendance

The Board held nine meetings during 2008 and the average attendance rate for all the Board members was 92%. The Investment Committee held five meetings during 2008 and the attendance rate at these meetings was 100% (including the external Investment Committee members and other Board members who have an open invitation to attend any of the meetings of the Committee).

2008 Board Meeting Attendance Summary

Meeting Date	Rod McDermid (Chair)	Blake Bartlett (Vice Chair)	Nancy Bochar	Scott Kashuba	Dave Lawson	Don Smallwood	Jan Loree Symon
January 25, 2008 Teleconference	✓	✗	✗	✓	✓	✓	✓
February 29, 2008 Fax Poll	✓	✓	✓	✓	✓	✓	✓
March 11, 2008 Meeting	✓	✓	✓	✓	✓	✓	✓
April 8, 2008 Meeting	✓	✓	✓	✓	✓	✓	✓
April 25, 2008 Meeting	✓	✗	✓	✓	✓	✓	✓
June 25, 2008 Meeting	✓	✓	✓	✓	✓	✓	✓
August 12, 2008 Meeting	✓	✓	✓	✓	✓	✗	✗
November 19, 2008	✓	✓	✓	✓	✓	✓	✓
December 4, 2008	✓	✓	✓	✓	✓	✓	✓
Total (out of 9)	9	7	8	9	9	8	8
Meeting Attendance	100%	78%	89%	100%	100%	89%	89%
Average Attendance							92%

2008 Investment Committee Meeting Attendance Summary

Meeting Date	Investment Committee Members Board Member		External Members		Other Board Members				
	Dave Lawson (Chair)	Nancy Bochar (Vice-Chair)	Joe Doolan	Jim Hinks	Blake Bartlett	Scott Kashuba	Rod McDermid	Don Smallwood	Jan Loree Symon
March 11, 2008	✓	✓	✓	✓	✓	✓	✓	✓	✓
June 25, 2008	✓	✓	✓	✓	✓	✓	✓	✓	✓
September 5, 2008	✓	✓	✓	✓	✓	✓	✓	✓	✓
October 29, 2008	✓	✓	✓	✓	✓	✓	✓	✓	✓
December 4, 2008	✓	✓	✓	✓	✓	✓	✓	✓	✓
Total (out of 5)	5	5	5	5	5	5	5	5	5
Meeting Attendance	100%	100%	100%	100%	100%	100%	100%	100%	100%
Average Attendance									100%

Remuneration

In accordance with best practice standards and in order to be transparent in its operations, the MEP Board has included its remuneration information below:

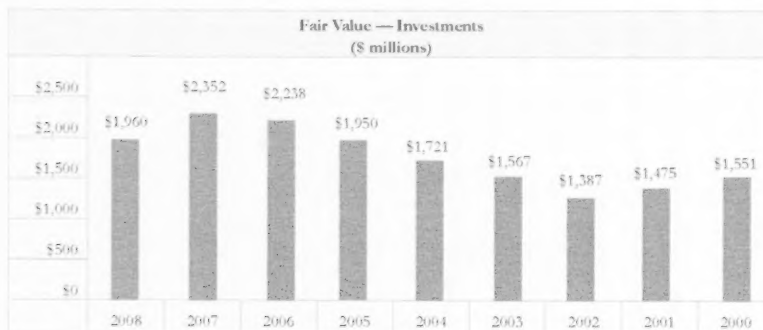
2008 MEP Board Remuneration

Remuneration	Board Members							External Members (Investment Committee)	
	Rod McDermid (Chair)	Blake Bartlett (Vice-Chair)	Nancy Bochar	Scott Kashuba	Dave Lawson	Don Smallwood	Jan Loree Symon	Jim Hinks	Joe Doolan
Remuneration paid	\$17,622	N/A*	\$8,435	N/A*	N/A*	\$10,785	N/A*	\$14,060	\$13,524
Total Board Remuneration									\$64,426

* Board members who are employees of the Government of Alberta or provincial agencies are not reimbursed for their meeting time.

HIGHLIGHTS

For 2008, the Plan experienced a one-year investment loss of -17.6%. In 2007, investments gained 2.7%. The fair value of investments at the end of 2008 was \$1.96 billion, down from \$2.35 billion at the end of 2007.

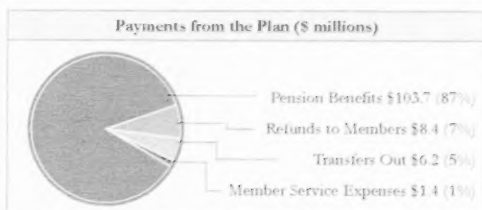


Contribution rates are set at 10.5% of pensionable salary for members and 18.0% of pensionable salary for employers. Contributions made to the MEPP in 2008 totalled \$146.4 million, down from \$156.6 million in 2007 (including a special payment by the Government of Alberta of \$40 million in 2007).

Contributions	2008		2007	
	\$ millions	%	\$ millions	%
Employer Contributions	\$ 81.4	56	\$ 71.9	46
Member Contributions	50.0	34	42.6	27
Transfers from Other Plans*	15.0	10	2.1	1
	146.4	100	116.6	74
Additional Government Contribution	-	-	40.0	26
Total Contributions	\$ 146.4	100	\$ 156.6	100

* Presented net of transfers out on the financial statements.

Payments from the Plan totalled \$119.7 million, up from \$102.1 million in 2007.



Monthly Payment Distribution
December 31, 2008

Dollar Value per Month	Pensions Paid
1 to 999	359
1,000 to 1,999	501
2,000 to 2,999	589
3,000 to 3,999	655
4,000 and over	801
Total	2,905

The Cost-of-Living Adjustment (COLA) granted to pensioners who retired prior to January 1, 2008 is 2.16%, effective January 1, 2009. This is 60% of the 3.6% increase in the Alberta Consumer Price Index over the 12-month period ending October 31, 2008, in comparison with the 12-month period ending October 31, 2007.

DISCUSSION AND ANALYSIS

This Discussion and Analysis (D&A), together with the MEPP financial statements, provides an overview of initiatives and achievements during the past year. This D&A does not refer to the Closed Plan, as the funding for that plan is the responsibility of the Government of Alberta.

Review of 2008

The financial health of the MEPP is measured and reported through two distinct methods, both of which adhere to recognized and generally accepted principles:

Financial Statements—for annual reporting purposes

The MEPP financial statements use fair value (also known as market value) to measure the value of plan assets. The method also uses the actuarial value of accrued benefits (based on the latest actuarial valuation report), with projected adjustments, to bring the figure forward to the current reporting year.

The financial statements for 2008 used the actuarial valuation report as at December 31, 2006, with projected adjustments, to determine the actuarial value of accrued benefits. As at December 31, 2008, the Plan's financial statements show that net assets available for benefits were \$1.971 billion (2007: \$2.361 billion) and the actuarial value of accrued benefits was approximately \$2.539 billion (2007: \$2.446 billion). This resulted in a shortfall of approximately \$569 million (2007: \$84 million) and an overall funded ratio of 78% (2007: 97%).

Financial statements for the MEPP are produced every year and reported in the MEPP Annual Report.

Actuarial Valuations—for funding purposes

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status.

The latest two actuarial valuations were performed as at December 31, 2004 and December 31, 2006. The 2006 valuation disclosed that the actuarial value of assets was \$2.067 billion (2004: \$1.731 billion*) and the actuarial value of accrued benefits was \$2.308 billion (2004: \$1.987 billion*). This resulted in an unfunded liability of \$241 million (2004: \$256 million) and an overall funded position of 90% (2004: 87%).

Under the Public Sector Pension Plans Act, an actuarial valuation is required on no less than a triennial basis. As the latest valuation for the MEPP was performed as at December 31, 2006, the next valuation is required no later than as at December 31, 2009**. Because valuation reports are finalized mid-way through the following year, the reporting of these results will be one year behind financial statement reporting. The valuation reports used for determining the contribution rates for the MEPP are reported on the MEPP website at www.mepp.ca.

* restated to conform with 2006 presentation.

** the Board has decided to conduct an actuarial valuation as at December 31, 2008, the results of which will be available mid 2009.

Regulation Changes

In 2008, the Lieutenant Governor in Council approved one change to the Management Employees Pension Plan Regulation (A.R. 367/93).

In June 2008, the plan rules were changed to allow existing employees of Alberta Investment Management Corporation (AIMCo) to elect to be grandfathered as MEPP participants. AIMCo was created as a crown corporation to manage the investment of pension plan, endowment and special purpose funds. It had been a division of the Ministry of Finance and Enterprise, and many of the continuing employees were MEPP members. All new hires will participate in a defined contribution plan sponsored by AIMCo.

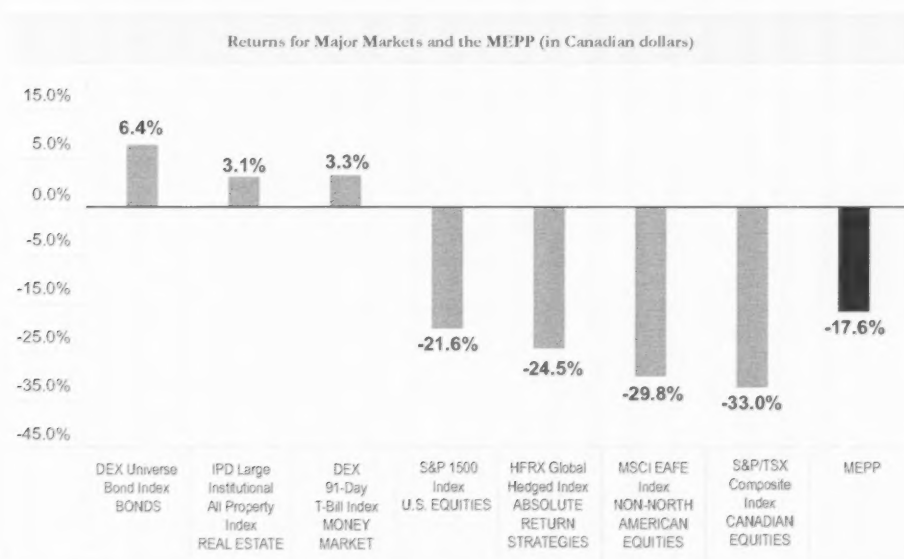
To obtain more information about the Plan, any upcoming changes in 2009, or for a glossary of terms, please go to the MEPP website at www.mepp.ca.

INVESTMENT OVERVIEW

Overall, in 2008, the Plan recorded a loss of -17.6%, or \$417 million, after investment expenses of \$6 million. This is down from a gain of 2.7%, or \$60 million, in 2007. The fair value of the Plan's investments decreased to \$1.960 billion, down \$392 million from \$2.352 billion the previous year.

The Plan's investment loss in 2008 was primarily due to a significant decline in world equity markets, the continuing credit crisis, deepening global recession and a decline in commodity prices. Fifty-two per cent of the Plan's investments are in public equities markets. In past years the Plan has benefited from AIMCo's exposure to credit risk directly through fixed income investments and through credit overlays to passive equity strategies; however, in 2008 the approach of adding credit exposure in multiple areas compounded the under-performance of the Plan and resulting losses. A weaker Canadian dollar in relation to other world currencies had a positive impact on the value of non-Canadian investments.

The following chart summarizes the market returns from various indices around the world and the overall return of the MEPP for 2008.



The bond market represented by the DEX Universe Bond Index posted a positive return of 6.4% in 2008, up from 3.7% in 2007 and 4.1% in 2006.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index, gained 3.1% this year, down from 16.0% last year.

The Canadian money market, represented by the DEX 91-Day T-Bill Index posted a positive return of 3.3% in 2008, down from 4.4% in 2007 and 4% in 2006.

The S&P 1500 Index, which tracks the performance of the top 1,500 American companies, decreased by -36.7% in U.S. dollars in 2008 compared to a gain of 5.5% in 2007. When translated into Canadian dollars, the Index returned a negative -21.6% in 2008 compared to a decrease of -10.6% in 2007.

Absolute Return Strategies, represented by the HFRX Global Hedged Index lost -24.5% in 2008, compared to a gain of 2.9% in 2007.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE) Index, measures the performance of approximately 1,200 companies on 21 stock exchanges around the world. In Canadian dollars, the Index returned a negative -29.8% in 2008 compared to a decrease of -5.7% in 2007.

The Canadian stock market declined significantly this year primarily due to the continuing credit crisis and decline in commodity prices. The Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index decreased by -33.0% in 2008 down from gains of 9.8% in 2007, 17.3% in 2006 and 24.1% in 2005.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar, the fair value of the Plan's U.S. equity portfolio, totaling \$284 million, changes by approximately \$2 million. At December 31, 2008, one U.S. dollar purchased \$1.22 Canadian, compared to 99 cents Canadian at the beginning of the year. As a result of the weaker Canadian dollar, U.S. dollar investments increased in value when translated into Canadian dollars. Thus in 2008, the decline in U.S. equity returns was softened by the weaker Canadian dollar relative to the U.S. dollar.

Investment Management Services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation whose share is held by the Alberta Ministry of Finance and Enterprise. AIMCo manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests the MEPP's assets for the benefit of its members, subject to legislation and the investment policies recommended by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge, and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

The Board monitors AIMCo's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-term asset mix.

Statement of Investment Policies and Procedures

The *Statement of Investment Policies and Procedures (SIPP)* sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the *SIPP* annually and recommends changes, if necessary. The *SIPP* can be viewed on the website at www.mepp.ca.

Asset Mix

The MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2008, the long-term target asset mix was weighted more towards equities at 52.0%, followed by fixed income securities at 33.0%, real estate at 7.0%, private income at 4.0%, private equities at 3.0% and 1.0% to absolute return strategies (hedge funds).

The illiquid asset classes, such as real estate, private equities, private income and absolute return strategies, are not always readily available for purchase and will take longer to attain their respective target asset mix. The Board has designed an interim policy asset mix to facilitate the transition. As at December 31, 2008, the interim policy asset mix was 54.0% equities, 35.0% fixed income, 7.0% real estate, 2.0% private equities, 1.5% private income and 0.5% absolute return strategies. The Board intends that the interim policy move towards the long-term target asset mix as illiquid assets become available.

The table below shows the MEPP's long-term target asset mix in comparison to the Plan's actual asset mix at December 31, 2008 and 2007.

Asset Mix %				
	Target Policy	Interim Policy	Actual 2008	Actual 2007
Fixed Income				
Cash and short-term	0.5	0.5	0.8	0.8
Bonds and mortgages	29.0	31.0	29.7	32.6
Real return bonds	3.5	3.5	3.9	3.5
	33.0	35.0	34.4	36.9
Equities				
Canadian	22.0	24.0	21.0	23.4
United States	14.0	14.0	14.5	13.6
Non-North American	16.0	16.0	16.5	15.4
	52.0	54.0	52.0	52.4
Real Estate	7.0	7.0	8.9	7.4
Alternative Investments				
Private equities	3.0	2.0	2.1	1.6
Private income	4.0	1.5	1.8	1.0
Absolute return strategies	1.0	0.5	0.8	0.7
Total	100.0	100.0	100.0	100.0

Long-term Investment Objective

The chart below compares the MEPP's overall actual returns for calendar years 2001 to 2008 and the four and eight year annualized time periods against the required long-term investment return of 6.75%. In four of the last eight years, the Plan's actual returns exceeded the required long-term annualized investment return. Over eight years, the annualized actual return of 2.7% was 4.0% less than the required long-term annualized return of 6.75%.



Value Added Return from Active Management

In order to measure the investment performance from AIMCo's active management, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the *SIPP*. The MEPP's investment policy benchmark (referred to as the policy benchmark) is based on the long-term asset mix weightings of the portfolio invested in the following capital markets:

	Annual Returns (\$ Canadian)*				Annualized Returns**	
	2008 %	2007 %	2006 %	2005 %	4 Years %	8 Years %
Overall Actual Returns	(17.6)	2.7	14.0	13.1	2.2	2.7
Policy Benchmark Return	(14.5)	2.6	13.2	11.8	2.6	2.8
Consumer Price Index	1.2	2.4	1.6	2.2	1.8	2.0
Short-term fixed income	6.3	5.2	4.0	2.9	4.6	4.0
DEX 91-Day T-Bill Index	3.3	4.4	4.0	2.6	3.6	3.3
Bonds and Mortgages	(0.7)	1.9	4.8	7.2	3.3	5.8
DEX Universe Bond Index	6.4	3.7	4.1	6.5	5.1	6.4
Real Rate of Return Bonds	1.0	1.7	(2.8)	15.2	3.5	7.3
DEX Real Return Bond Index	0.4	1.6	(2.9)	15.2	3.4	7.3
Total Long-term Fixed income	(1.0)	1.9	4.1	7.9	3.2	5.9
Fixed income index (1)	5.8	3.5	3.4	7.2	5.0	6.5
Canadian Equities	(33.7)	9.2	18.2	24.6	1.6	2.4
S&P/TSX Capped Composite (2)	(33.0)	9.8	17.3	24.1	1.7	2.3
United States Equities	(29.2)	(11.0)	15.2	1.8	(7.3)	(6.3)
S&P 1500 Index (3)	(21.6)	(10.6)	15.3	2.4	(4.6)	(5.2)
Non-North American Equities	(32.8)	(3.0)	26.8	13.1	(1.7)	(2.1)
MSCI EAFE Index	(29.8)	(5.7)	26.3	10.0	(2.1)	(2.6)
Foreign Equities	(31.2)	(6.8)	21.5	7.8	(4.3)	(4.0)
Foreign Equity Index (4)	(25.7)	(7.9)	21.1	6.6	(3.1)	(3.7)
Real estate	5.4	20.8	21.3	29.9	19.0	n/a
IPD Large Institutional All Property Index (5)	3.1	16.7	18.6	19.4	14.1	n/a
Alternative Investments	(4.9)	16.3	15.5	15.9	10.3	n/a
Alternative Investments Index (6)	(15.5)	10.3	15.0	13.2	5.0	n/a

* Annual returns are the returns for one calendar year (12 months).

** Annualized returns convert multi-period returns (such as four years) into a compound annual return for ease of comparison between the time periods.

- (1) Combined DEX Universe Bond Index and Real Return Bond Index.
- (2) S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.
- (3) S&P 1500 Index commenced in May 2004. Previously S&P 500 Index.
- (4) Combined S&P 1500 Index and MSCI EAFE Index.
- (5) Changed to IPD Large Institutional All Property Index from the IPD All Property Index effective May 1, 2004. Prior to January 1, 2003, the Real Estate Index was the Russell Canadian Property Index (RCPI).
- (6) Combined TSX Composite + 2.5 % for private equity, CPI + 6 % for private income and HFRX Global Investable Index (Hedged C\$) for absolute return strategies. The CPI in the private income benchmark is calculated and reported on a one-month lagged basis due to timing difference in reporting between AIMCo and Statistics Canada throughout the year.

In 2008, the Plan recorded an overall market value loss of -17.6% from its investments. This loss was 3.1%, or approximately \$75 million, greater than the benchmark loss of -14.5%. Over four years, the Plan's investments gained 2.2 % per year, 0.4% less than the benchmark gain of 2.6%. On an eight-year basis, the Plan gained 2.7% per year, 0.1% less than the policy benchmark gain of 2.8%.

The table below shows the value added by AIMCo in comparison to the various components of the policy benchmark.

Value Added (Lost) by Manager In Comparison to Benchmarks			
	1 Year %	4 Years %	8 Years %
Short-term Fixed Income	3.0	1.0	0.7
Bonds and Mortgages	(7.1)	(1.8)	(0.6)
Real Rate of Return Bonds	0.6	0.1	0.0
Canadian Equity	(0.7)	(0.1)	0.1
U.S. Equity	(7.6)	(2.7)	(1.1)
Non-North American Equity	(3.0)	0.4	0.5
Real Estate	2.3	4.9	n/a
Alternative Investments	10.6	n/a	n/a
Total Value Added	(3.1)	(0.4)	(0.1)

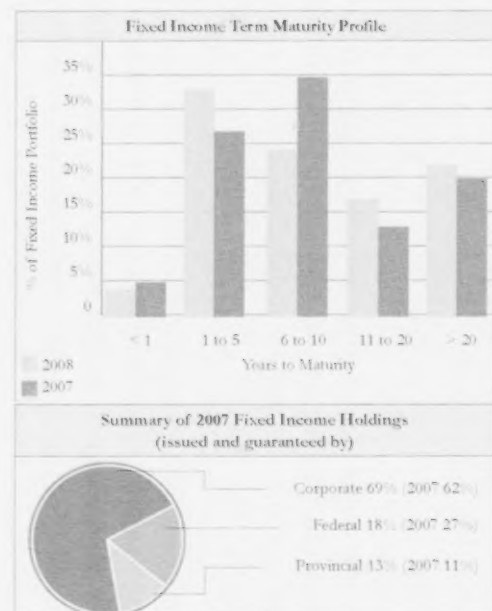
Fixed Income Investments

During the year, the U.S. Federal Reserve decreased its federal funds rate to 0.25%, down 4.00% from 4.25% at the beginning of the year. In Canada, the target overnight rate declined to 1.50% from 4.25% at the beginning of the year.

Overall, the Canadian bond market performed well this year. The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the Index increased by 6.4% compared to an increase of 3.7% the previous year while the DEX Real Return Bond Index increased by 0.4% compared to an increase of 1.6% last year. The short term DEX 91-Day T-Bill Index increased by 3.3% compared to 4.4% the previous year.

The Plan's actual loss of -0.7% over one year from long-term Canadian bonds and mortgages was 7.1% lower than the benchmark gain of 6.4%. The Plan's actual return from real rate of return bonds was 1.0%, 0.6% better than the benchmark of 0.4%. Over four years, the return from long-term bonds and mortgages was 3.3%, 1.8% less than the benchmark of 5.1% while real rate of return bonds returned 3.5%, 0.1% better than the benchmark of 3.4%.

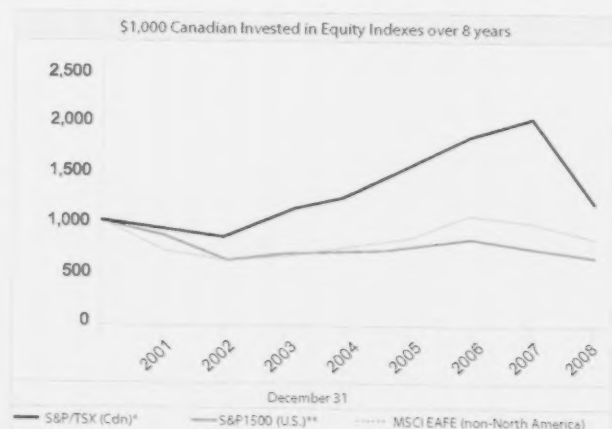
At December 31, 2008, investments in fixed income securities decreased to 34.4% of total investments from 36.9% at the end of the previous year. Fixed income investments now total \$674 million, down \$193 million, from \$867 million the previous year.



Equity Investments

Given the MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. Equities represent 52.0% of the Plan's total asset mix at December 31, 2008 and consist of 21.0% in Canada, 14.5% in U.S. and 16.5% in non-North American markets.

The chart to the right shows the growth over eight years of \$1,000 dollars (Canadian) invested in major equity markets in Canada, U.S. and non-North American for the period December 31, 2000 to December 31, 2008. For example, \$1,000 dollars invested on December 31, 2000 in the Canadian stock market represented by the S&P/TSX Composite Index would be worth approximately \$1,200 dollars at December 31, 2008. However, an investment of \$1,000 Canadian dollars in the U.S. equity market and non-North American equity market over eight years would be worth significantly less than the initial investment.



* S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

** S&P 1500 Index commenced in May 2004. Previously S&P 500 Index.

Canadian Equities

At December 31, 2008, Canadian equities represent 21.0% of the MEPP's total investments (or \$411 million) compared to 23.4% (or \$551 million) at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIMCo directly manages the passive index and certain active large cap strategies. External investment advisors also actively manage a large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles).

The actual loss from Canadian equity investments over the year was -33.7%, 0.7% more than the benchmark loss of -33.0% based on the S&P/TSX Capped Composite index.

Canadian Equities		
	Actual Return	Benchmark Return
1 Year	(33.7%)	(33.0%)
4 Years	1.6%	1.7%
8 Years	2.4%	2.3%

Canadian Equity Holdings			
By Industry Sector		(Millions)	Per cent
December 31, 2008		\$	%
1	Financials	115	29.3
2	Energy	107	27.3
3	Materials	63	16.1
4	Telecommunications	26	6.6
5	Industrials	24	6.1
6	Consumer discretionary	24	6.1
7	Consumer staples	14	3.6
8	Information technology	13	3.3
9	Utilities	5	1.3
10	Health care	1	0.3
		392	100
Other assets net of liabilities		19	
		411	

Foreign Equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and Emerging Markets. Emerging markets includes exposure to developed emerging markets on an opportunistic basis.

U.S. Equities

At December 31, 2008, U.S. equities comprised 14.5% of the Plan's investments (or \$284 million) compared to 13.6% (or \$319 million) the previous year. Passive strategies are managed to the benchmark S&P 1500 Index while the value-added strategy provides exposure to the benchmark with value added provided by hedge fund managers. Small-mid capitalization strategies and the growing equity income strategy comprise the remainder of the U.S. equity portfolio.

The actual loss from U.S. equities over the year was -29.2%, 7.6% more than the benchmark loss of -21.6% based on the S&P 1500 Index, measured in Canadian dollars.

U.S. Equities (in Canadian dollars)		
	Actual Return	Benchmark Return
1 Year	(29.2%)	(21.6%)
4 Years	(7.3%)	(4.6%)
8 Years	(6.3%)	(5.2%)

U.S. Equity Holdings			
By Industry Sector		(Millions)	Per cent
December 31, 2008		\$	%
1	Information technology	43	15.3
2	Financials	41	14.6
3	Health care	41	14.6
4	Energy	35	12.4
5	Consumer staples	33	11.7
6	Industrials	32	11.4
7	Consumer discretionary	24	8.5
8	Utilities	12	4.3
9	Materials	10	3.6
10	Telecommunications	10	3.6
		281	100
Other assets net of liabilities		3	
		284	

Non-North American Equities

Non-North American equities comprised 16.5% (or \$324 million) of total Plan investments at December 31, 2008 compared to 15.4% (or \$364 million) the previous year. Approximately 97% of this asset class is comprised of actively and passively managed investments in Europe, Australasia and Far East (EAFE). The emerging market mandate comprises the remaining 3.0%.

The actual loss from non-North American equity markets over the year totalled -32.8%, 3.0% more than the benchmark MSCI EAFE Index loss of -29.8% measured in Canadian dollars.

Non-North American Equities (in Canadian dollars)		
	Actual Return	Benchmark Return
1 Year	(32.8%)	(29.8%)
4 Years	(1.7%)	(2.1%)
8 Years	(2.1%)	(2.6%)

Non-North American Equity Holdings			
By Industry Sector		(Millions)	Per cent
December 31, 2008		\$	%
1	Financials	61	20.0
2	Industrials	35	11.0
3	Consumer staples	35	11.0
4	Health care	34	11.0
5	Energy	30	10.0
6	Telecommunications	30	10.0
7	Consumer discretionary	29	9.0
8	Materials	20	6.0
9	Information technology	18	6.0
10	Utilities	18	6.0
		310	100
Other assets net of liabilities		14	
		324	

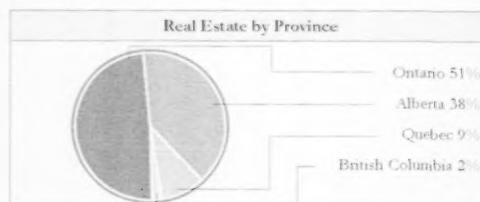
Real Estate

At December 31, 2008, the Plan's real estate portfolio comprised 8.9% (or \$176 million) of total investments compared to 7.4% (or \$173 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

The actual real estate return in 2008 was 5.4%, 2.3% better than the benchmark IPD Large Institutional All Property Index return of 3.1%.

Real Estate			
	Actual Return	Benchmark Return	
1 Year	5.4%	3.1%	
4 Years	19.0%	14.1%	
8 Years	n/a	n/a	

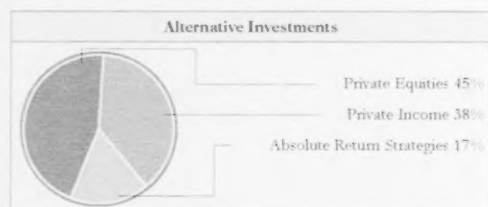
Real Estate Holdings			
Top 5 Real Estate Holdings December 31, 2008		Location	Sector
1	Yorkdale Shopping Centre	Toronto, Ontario	Retail
2	Place Ville Marie	Montreal, Quebec	Office
3	Square One Shopping Centre	Mississauga, Ontario	Retail
4	Scarborough Town Centre	Toronto, Ontario	Retail
5	Bow Valley Square	Calgary, Alberta	Office



Alternative Investments

At December 31, 2008, the Plan's alternative investment portfolio comprised 4.7% (or \$92 million) of total investments up from 3.3% (or \$78 million) the previous year. The alternative investment portfolio consists of private equities, private income and absolute return strategy investments. These investments are all relatively illiquid asset classes and require time to build and exit the investments.

The actual loss from alternative investments in 2008 was -4.9%, 10.6% better than the benchmark loss of -15.5%, which consists of the S&P/TSX Composite Index plus 2.5% for private equity, CPI plus 6.0% for private income and the HF-RX Global Investable Index (Hedged CS) for Absolute return strategies.



Private Equities

Private equity investments comprised 2.1% (or \$42 million) of the total investment portfolio at December 31, 2008 compared to 1.6% (or \$38 million) the previous year. Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions. In 2008, private equities lost -8.3% compared to a gain of 21.0% in 2007.

Private Income

Private income investments comprised 1.8% (or \$35 million) of the total investment portfolio at December 31, 2008 compared to 1.0% (or \$24 million) the previous year. Private income investments include infrastructure related projects that are structured to yield high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). In 2008, private income investments gained 14.6% compared to 14.1% in 2007.

Absolute Return Strategies

Absolute return strategies (hedge funds) comprised 0.8% (or \$16 million) of the total investment portfolio at December 31, 2008 compared to 0.7% (or \$16 million) the previous year. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. Absolute return strategies includes hedge fund strategies such as convertible arbitrage, distressed securities, event driven equity market neutral and merger arbitrage. In 2008, Absolute return strategies lost -27.2% compared to a gain of 9.4% in 2007.

AIMCo's Forward Looking Statements

The global economy enters 2009 in recession. Consumer and industrial activity around the world collapsed in the fourth quarter of 2008 in the wake of the global credit market crisis. Consumers continue to be hit by a falling housing market, a weak equity market, and a weak employment situation. Further, the banking sector remains hampered in its ability to extend new credit to consumers or businesses as it repairs its collective balance sheet from the losses of 2007 and 2008. Given these factors, we expect to see a consumer retrenchment in the United States, with consumers increasing their savings at the expense of consumption expenditure.

This bodes ill for the global economy in 2009. The US consumer sector makes up approximately 70% of US GDP, which in turn makes up approximately 20% of global GDP. US consumer spending has been the driver of global growth for the last several years. With the consumer likely to save more in the period ahead, we expect global growth to be very disappointing through 2009. To offset this, governments and central banks have been taking stimulative action. While this will take the edge off the downturn in growth, it will not prevent it from coming.

At present it is not clear that this is fully factored in to corporate profit estimates. We expect profit growth to be disappointing. This, when balanced against equity markets that have seen valuation improvements, suggests a market with elevated volatility and, at best, modest returns. Indeed, we expect all asset classes to face challenges this year.

The present environment will create opportunities for capital providers in all asset classes. As both high and low quality assets have sold off in the current crisis, there are opportunities to pick up discounted assets. The challenge is to identify those of the highest quality that will be able to endure what is sure to be a very challenging 2009.

Proxy Voting

The MEP Board delegates responsibility for proxy voting to AIMCo. Pension funds are managed in the best interests of beneficiaries; therefore AIMCo's governance principle is to vote proxies in this manner.

AIMCo outsourced proxy voting for most of 2008 to ISS Governance Services (ISS) of RiskMetrics Group. Outsourcing provides a comprehensive, reliable voting platform and permits users to monitor and audit the work done on AIMCo's behalf. AIMCo conducted a standard request-for-proposals in 2008 to ensure that the service employed by AIMCo was the best available. The contract winner was Glass Lewis, who commenced proxy services for AIMCo in December of 2008. Glass Lewis is a leader in proxy research and operations with a client base consisting of hundreds of money managers, mutual fund companies, plan sponsors and hedge funds across the globe. Glass Lewis does not provide consulting services to issuers or their directors, and therefore has no conflicts of interest while guaranteeing coverage of all companies in their clients'

portfolios in a standard universe that includes nearly 16,000 public companies across 65 countries. AIMCo retains the right to over-ride Glass Lewis should any vote appear to be contrary to AIMCo's own governance principles.

AIMCo monitors the opinions of peer organizations and the Canadian Coalition for Good Governance (CCGG) regarding potentially contentious issues and the governance practices of specific companies. AIMCo is also a member of the CCGG.

Risk Management System

AIMCo has developed a market risk system to model and measure the market risks associated with investments for the MEPP. In the future, the risk system will provide a framework for measuring, monitoring and managing risk to assist in future decisions regarding investment and risk policies. During 2008 the Board worked with AIMCo on risk management education.

PLAN ADMINISTRATION

Alberta Pensions Administration Corporation (APA) administers the MEPP under an Administrative Services Agreement with the Minister. APA's administrative activities include the collection of member data and contributions, calculation and payment of pension benefits, maintenance of membership records, provision of support to the MEP Board, and communication of pension information to members, pensioners and employers.

Initiatives

Important changes in 2008 included:

- **Information Products.** Updated the Welcome Package for new members, with a new welcome letter promoting the value of the Plan in plain language, enhanced forms and surveys. New members received the enhanced package in late 2008.
Updated the Pension Options and Pension Estimates Packages for members planning to retire with a new and redesigned cover letter, enhanced forms and surveys and a new checklist. The new packages provide information in plain language and in a way that helps members understand the pension choices available and the implications and benefits of those choices.
- **mypensionplan enhancements.** Enhanced the secure **mypensionplan** site, where members can access their personal pension information. It is now easier to sign up to the site, as there is no registration waiting period, and members can also view and change their address information online.
- **Corporate Strategic Planning.** Work continues on the Five-year Strategic Plan, which looks to enable better use of available technology and employee expertise to deliver proactive, responsive and client-focused service to members, pensioners, employers and plan governors now and into the future.

Member Service Costs

APA aims to provide services in an efficient and cost-effective manner. APA's costs are distributed among the public sector pension plans it serves. The MEPP costs are based on a cost-share formula, determined by the Minister.

The cost per member for administrative services increased 7% to \$161 in 2008 (2007: \$150). APA's operating costs increased by \$7 per member, mainly due to higher staff levels. Board and Plan-specific costs increased by \$4 per member in 2008, mainly attributed to increased actuarial work undertaken by the Board during the year.

Cost per Member	2008 \$	2007 \$
Administration Operating Costs	121	114
Board and Plan-specific Costs	40	36
Total Plan Operating Costs	161	150

Communication and Education Services

The MEPP members and employers were provided with a number of tools in 2008 that made it easier for them to understand, manage and access information about their pensions.

The MEPP members were provided with annual report highlights and member annual statements, given the opportunity to attend information seminars, and members new to the Plan were sent a Welcome Package including a welcome letter, forms and plan details.

The MEPP employers were sent the monthly electronic employer newsletter, *Pension e-news*, which continued to give them easy access to up-to-date pension information. *Pension e-guide*, the electronic manual for employers, continued to be a source of online support for employers' administrative issues and was upgraded in 2008 with a "What's New" section.

Plan members and other interested persons visited the MEPP website (www.mepp.ca) in increasing numbers in 2008. Almost 19,400 hits were made on the site in 2008, compared to just over 15,560 hits in 2007. Members continued to take advantage of the pension estimator function and, through upgrades performed to **mypensionplan** in 2008, were able to quickly and easily sign up and change their address information.

The Year Ahead

In 2009, APA plans to:

- Perform a thorough review of Member Annual Statements to ensure members are receiving comprehensive information about their pension in a way that is easy to understand and provides valuable and relevant Plan details.
- Continue to improve the **mypensionplan** site, allowing members even more access to view and alter their personal information, including beneficiary details.
- Ensure service levels for members, employers and pensioners meet or exceed expectations.
- Implement a service level agreement with the MEP Board.

For further information on the Plan or to access the **mypensionplan** site, please refer to the MEPP website at www.mepp.ca. Effective January 1, 2009, Alberta Pensions Administration Corporation has changed its name to Alberta Pensions Services Corporation. The name change will be publicly launched later in 2009. Please refer to www.apaco.ab.ca for additional information on APA's activities.

2008 FINANCIAL STATEMENTS

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ACTUARY'S OPINION

Aon Consulting Inc. was retained by the Management Employees Pension Board (MEP Board) to perform an actuarial valuation of the assets and liabilities of the Management Employees Pension Plan as at December 31, 2006. Aon Consulting Inc. was further retained to prepare extrapolations of the valuation results to December 31, 2008, for inclusion in the Annual Report with respect to the Management Employees Pension Plan for the Year Ended December 31, 2008.

The valuation and extrapolation of the Plan's actuarial assets and liabilities were based on:

- Membership data provided by the Alberta Pensions Administration Corporation (APA) as at December 31, 2006, and asset data provided by APA as at December 31, 2006, December 31, 2007 and December 31, 2008;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management (the Government of Alberta) and Aon Consulting Inc. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

I have tested the data for reasonableness and consistency with prior valuations and in my opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. I also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and my valuation and extrapolation have been performed in accordance with accepted actuarial practice.

Original signed by

Wayne R. Berney

Fellow, Canadian Institute of Actuaries

Fellow, Society of Actuaries

April 15, 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management Employees Pension Plan (Plan) financial statements and financial information in the 2008 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management Corporation (AIMCo) which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and
- Alberta Pensions Administration Corporation (APA) which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's Annual Report.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APA and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2008 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APA and AIMCo each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Original signed by

Robert Bhatia

Deputy Minister of Finance and Enterprise

March 16, 2009



AUDITOR'S REPORT

To the Minister of Finance and Enterprise:

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Management Employees Pension Plan as at December 31, 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 16, 2009

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2008

	2008	2007
	(\$ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	\$ 1,960,455	\$ 2,351,906
Accrued investment income and accounts receivable	188	192
Contributions receivable (Note 6)	10,833	9,502
	1,971,476	2,361,600
Liabilities		
Accounts payable	611	300
Net assets available for benefits	1,970,865	2,361,300
Liability For Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,539,439	2,445,641
Deficiency	\$ (568,574)	\$ (84,341)

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2008

	2008	2007
	(\$ thousands)	
Increase in Assets		
Contributions (Note 8)	\$ 131,406	\$ 114,463
Net investment (loss) income (Note 9)		
Investment (loss) income	(411,196)	65,059
Investment expenses	(5,945)	(5,081)
Additional Government contributions (Note 10)	-	40,000
Transfers from other plans, net	8,752	985
	(276,983)	215,426
Decrease in Assets		
Pension benefits	103,672	93,819
Refunds to members	8,405	5,987
Member service expenses (Note 11)	1,375	1,212
	113,452	101,018
(Decrease) increase in net assets	(390,435)	114,408
Net assets available for benefits at beginning of year	2,361,300	2,246,892
Net assets available for benefits at end of year	\$ 1,970,865	\$ 2,361,300

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2008

	2008	2007
	(\$ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	\$ 164,903	\$ 155,252
Benefits earned	94,059	83,538
Net experience losses (Note 7b)	-	28,942
	258,962	267,732
Decrease in liability for accrued benefits		
Benefits paid and transfers	103,325	98,821
Net change due to changes in actuarial assumptions (Note 7a)	61,839	(23,073)
	165,164	75,748
Net increase in liability for accrued benefits	93,798	191,984
Liability for accrued benefits at beginning of year	2,445,641	2,253,657
Liability for accrued benefits at end of year (Note 7)	\$ 2,539,439	\$ 2,445,641

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Deficiency

For the year ended December 31, 2008

	2008	2007
	(\$ thousands)	
Deficiency at beginning of year	\$ (84,341)	\$ (6,765)
(Decrease) increase in net assets available for benefits	(390,435)	114,408
Net increase in liability for accrued benefits	(93,798)	(191,984)
Deficiency at end of year (Note 13)	\$ (568,574)	\$ (84,341)

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Notes to the Financial Statements

December 31, 2008

(All dollar amounts in thousands, except per member data)

Note 1 — Summary Description of the Plan

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and accordingly Alberta Finance and Enterprise is management of the Plan. The Plan receives advice from a Board of Trustees.

(b) Plan Funding

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2008 were unchanged at 10.5% of pensionable salary up to the maximum pensionable salary limit under the federal *Income Tax Act* for employees and 18.0% for employers. The rates are reviewed at least once every three years by the Minister of Alberta Finance and Enterprise, in consultation with the Board, based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Pensions are payable to members who have attained age 65 at retirement.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

Note 1 — Summary Description of the Plan (continued)**(e) Death Benefits**

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

(f) Termination Benefits and Refunds to Members

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

(i) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices**(a) Basis of Presentation**

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Investment Management Corporation. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments and absolute return strategies, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from values that would have been used had a ready market existed for these investments.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities (continued)

The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

- i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.
- ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- iii) The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.
- iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.
- v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(c) Income Recognition

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

- i) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.
- ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(e) Valuation of Derivative Contracts (continued)

- iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
- iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.
- v) Options to enter into market rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

(f) Valuation of Liability for Accrued Benefits

The value of liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made not less than every three years and then extrapolated, on an annual basis, to year-end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments. Uncertainty arises because:

- i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's liability for accrued benefits, and
- ii) the estimated fair values of the Plan's private investments, absolute return strategies and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

Note 3 — Investments (Schedules A to E)

	2008		2007	
	Fair Value		Fair Value	
	(\$ thousands)	%	(\$ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	\$ 8,708	0.4	\$ 10,780	0.5
Universe Fixed Income Pool (b)	518,936	26.5	666,007	28.4
Private Mortgage Pool (c)	112,362	5.7	102,316	4.3
Real rate of return bonds (d)	76,680	3.9	80,725	3.4
Currency Alpha Pool (e)	4,951	0.3	3,202	0.1
Fixed Income Overlay Strategy (f)	(49,182)	(2.5)	-	-
Tactical Asset Allocation Pool	1,430	0.1	3,725	0.2
	673,885	34.4	866,755	36.9
Canadian Equities (Schedule B)				
Canadian Structured Equity Pool (g)	77,611	4.0	112,959	4.8
Canadian Pooled Equities Fund (h)	99,814	5.1	137,914	5.8
Canadian Multi-Cap Pool (i)	108,292	5.5	150,411	6.4
Canadian Equity Enhanced Index Pool (j)	46,875	2.4	67,856	2.9
Canadian Large Cap Equity Pool (k)	37,755	1.9	50,516	2.1
Growing Equity Income Pool (l)	21,201	1.1	30,637	1.3
Private Equity Pool	-	-	1,194	0.1
Canadian Overlay Strategy Pool (f)	19,343	1.0	-	-
	410,891	21.0	551,487	23.4
United States Equities (Schedule C)				
U.S. Structured Equity Pool (m)	177,224	9.0	238,667	10.1
U.S. Small/Mid Cap Equity Pool (n)	31,573	1.6	38,941	1.7
Portable Alpha U.S. Pool (o)	67,460	3.5	34,627	1.5
Growing Equity Income Pool (l)	1,813	0.1	6,651	0.3
U.S. Overlay Strategy Pool (f)	5,968	0.3	-	-
	284,038	14.5	318,886	13.6
Non-North American Equities (Schedule D)				
EAFE Active Equity Pool (p)	214,668	10.9	273,154	11.6
Emerging Markets Equity Pool (q)	8,698	0.4	15,986	0.7
EAFE Structured Equity Pool (r)	61,964	3.2	74,402	3.1
Structured Transition Pool (s)	1,185	0.1	-	-
EAFE Overlay Strategy Pool (f)	37,309	1.9	-	-
	323,824	16.5	363,542	15.4
Real Estate Equities (Schedule E)				
Private Real Estate Pool (r)	175,510	8.9	173,182	7.4
Alternative Investments - Equities				
Private Equity Pools (u)	41,823	2.1	37,905	1.6
Private Income Pools (v)	34,803	1.8	23,755	1.0
Absolute Return Strategy Pool (w)	15,681	0.8	16,394	0.7
	92,307	4.7	78,054	3.3
Total equities	1,286,570	65.6	1,485,151	63.1
Total investments	\$ 1,960,455	100.0	\$ 2,351,906	100.0

Note 3 — Investments (Schedules A to E) (continued)

- (a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.
- (b) The Universe Fixed Income Pool is managed with the objective of providing competitive returns comparable to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.
- (c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals and specialty mortgages. The pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.
- (d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.
- (e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.
- (f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, EAFE equities, major foreign currencies and styles and sectors. At December 31, 2008, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through equity index futures and swap contracts.
- (g) The Canadian Structured Equity Pool is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.
- (h) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.
- (i) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is comprised of investments in the External Managers Canadian Multi-Cap Pool. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 — Investments (Schedules A to E) (continued)

- (j) The Canadian Equity Enhanced Index Pool consists of a publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.
- (k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities, which are actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.
- (l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well-capitalized companies. The performance of the Pool is measured against the total return of the S&P/TSX Composite Index.
- (m) The U.S. Structured Equity Pool is passively managed. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pool utilizes synthetic replication strategies through futures, swaps and other structured investments to obtain exposure to the benchmark. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.
- (n) The U.S. Small/Mid Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. Small/Mid Cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index for the U.S. Small/Mid Cap Pool over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.
- (o) The Portable Alpha U.S. Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.
- (p) The EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.
- (q) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.
- (r) The EAFE Structured Equity Pool's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pool is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 — Investments (Schedules A to E) (continued)

- (s) The Structured Transition Pool provides exposure to non-North American markets through the use of structured investments such as foreign equity index swaps.
- (t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.
- (u) The Private Equity Pool 2002 and Private Equity 2004 are managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.
- (v) The Private Income Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to provide high current income.
- (w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

Note 4 — Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal and real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term policy asset mix benchmark:

Short-term	0.5%
Fixed income	32.5%
Canadian equity	22.0%
U.S. equity	14.0%
Non-North American equity	16.0%
Real estate	7.0%
Alternative investments	8.0%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 — Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risks and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2008:

	2008				2007		
	Maturity			Notional Amount	Net	Notional Amount	Net
	Under 1 Year	1 to 3 Years	Over 3 Years		Fair Value (a)		Fair Value (a)
	%				(\$ thousands)		
Equity index swap contracts	93	7	-	499,455	5,906	564,026	(5,891)
Credit default swap contracts	5	44	51	727,690	(13,773)	691,323	(1,972)
Interest rate swap contracts	15	52	33	184,859	(8,732)	369,156	(1,505)
Forward foreign exchange contracts	100	-	-	160,696	(5,300)	189,813	(349)
Cross-currency interest rate swaps	17	58	25	130,110	(5,851)	158,231	11,092
Futures contracts	100	-	-	100,094	14,811	162,427	3,998
Bond index swap contracts	100	-	-	35,330	929	81,906	2,555
Swap option contracts	-	-	-	-	-	381,228	72
				\$ 1,838,234	\$ (12,010)	\$ 2,598,110	\$ 8,000

a) The method of determining fair value of derivative contracts is described in Note 2(e).

Note 5 — Derivative Contracts (continued)

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have a good credit standing.

Note 6 — Contributions receivable**(a) Investment Income**

Net investment income of the Plan is comprised of the following:

	2008	2007
	(\$ thousands)	
Employers	6,833	5,996
Employees	4,000	3,506
	\$ 10,833	\$ 9,502

Note 7 — Liability for Accrued Benefits**(a) Actuarial Valuation and Extrapolation Assumptions**

An actuarial valuation of the Plan was carried out in 2007 as at December 31, 2006 by AON Consulting Inc. and was then extrapolated to December 31, 2008.

The actuarial assumptions used in determining the value of the liability for accrued benefits of \$2,539,439 (2007: \$2,445,641) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate.

The actuarial valuation for funding was used as the basis for the actuarial extrapolation for accounting purposes. The inflation rate and salary escalation rate assumptions for the accounting extrapolation differ from those assumptions previously established for funding.

The major assumptions used for accounting purposes were:

	2006 Valuation and 2008 Extrapolation	2006 Valuation and 2007 Extrapolation
	%	
Investment rate of return	6.75	6.75
Inflation rate		
For 2008 and 2009	3.50	3.50
Thereafter	2.25	2.75
Salary escalation rate*		
For 2008 and 2009	4.00	4.00
Thereafter	3.50	3.25
Mortality Rate	Uninsured Pensioner 1994 Table	
	Projected to 2020 using Scale AA	

*In addition to merit and promotion.

Note 7 — Liability for Accrued Benefits (continued)

(b) Investment Expenses

Net experience losses of \$nil (2007: \$28,942) arose from differences between the actuarial assumptions used in the valuation and actual results.

(c) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2008:

	Sensitivities		
	Changes in Assumptions %	Increase in Plan Deficiency (\$ thousands)	Increase in Current Service Cost as a % Pensionable Earnings*
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	170,800	1.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	22,000	0.7
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	323,400	3.8

* The current service cost of accruing benefits (excluding 0.4% allowance for administration expenses) as a percentage of pensionable earnings as determined by the December 31, 2006 valuation was 20.4%.

Note 8 — Contributions

	2008	2007
	(\$ thousands)	
Current and optional service		
Employers	\$ 81,444	\$ 71,857
Employees	49,962	42,606
	<u>\$ 131,406</u>	<u>\$ 114,463</u>

Note 9 — Net Investment Income

(a) Investment (Loss) Income

Net investment income of the Plan is comprised of the following:

	2008	2007
	(\$ thousands)	
Investment (loss) income		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	\$ (502,282)	\$ (29,124)
Interest income	57,490	66,123
Dividend income	24,036	20,150
Real estate operating income	8,126	7,140
Securities lending income	1,434	770
	(411,196)	65,059
Investment expenses	(5,945)	(5,081)
Net investment (loss) income	\$ (417,141)	\$ 59,978

The following is a summary of the Plan's proportionate share of net investment (loss) income by type of investments:

	2008	2007
	(\$ thousands)	
Private real estate	\$ 9,071	\$ 31,371
Private income	4,330	2,909
Private equities	(3,898)	6,661
Fixed income securities	(5,323)	16,025
Absolute return strategy	(5,451)	1,033
U.S. equities	(101,902)	(36,137)
Non-North American equities	(124,430)	(11,021)
Canadian equities	(189,538)	49,137
Net investment (loss) income	\$ (417,141)	\$ 59,978

Note 9 — Net Investment Income (continued)

(a) Investment (Loss) Income (continued)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Fifteen-Year Compound Annualized Return
Time-weighted rates of return*				
Actual (loss) gain	(17.6%)	2.2%	2.7%	6.7%
Benchmark (loss) gain**	(14.4%)	2.7%	2.8%	6.6%
Value lost from active management	(3.2%)	(0.5%)	(0.1%)	0.1%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

(b) Investment Expenses

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided by Alberta Investment Management Corporation are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at a fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the external recognized.

Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit. Alberta Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets and per member are provided below:

	2008	2007
	(\$ thousands)	
Total investment expenses	\$ 5,945	\$ 5,081
Investment expenses as a percentage of net assets	0.30%	0.22%
Investment expenses per member	\$ 695	\$ 628

Note 10 — Additional Government Contributions

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of \$40,000 to the Plan toward the Government's share of the Plan's unfunded actuarial deficiency.

Note 11 — Member Service Expenses

Member service expenses of \$1,375 (2007: \$1,212) which include Board costs in the amount of \$71 (2007: \$40), were charged to the Plan on a cost-recovery basis. These are \$161 (2007: \$150) per member.

The Plan's share of Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

Note 12 — Total Plan Expenses

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are \$7,320 (2007: \$6,293) or \$856 (2007: \$778) per member and 0.37% (2007: 0.27%) of net assets under administration.

Note 13 — Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to \$2,069,000 at December 31, 2008 (2007: \$2,297,000).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.3% of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2008 (see Note 1(b)).

Note 14 — Subsequent Event - Decline in Fair Value Investments

The fair value of the Plan's investment is subject to significant market volatility due to the current economic crisis in global markets. In the two months subsequent to December 31, 2008, the Plan's investments declined by approximately 6.6% to approximately \$1,832,000 from \$1,960,455 at December 31, 2008. To the extent that investments of the Plan may not recover these market related losses during the remaining ten months of 2009, the deficiency of the Plan would increase accordingly.

Note 15 — Comparative Figures

Comparative figures have been reclassified to be consistent with 2008 presentation.

Note 16 — Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise based on information provided by Alberta Pensions Administration Corporation, Alberta Investment Management Corporation and the Plan's actuary, and after consultation with the Management Employees Pension Board.

Schedule A

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Fixed Income Securities

December 31, 2008

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 41,719	\$ 19,575
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	115,659	222,366
Provincial		
Alberta, direct and guaranteed	143	199
Other Provincial, direct and guaranteed	81,550	95,038
Municipal	34	306
Corporate, public and private	443,465	517,879
	640,851	835,788
Receivable from sale of investments		
and accrued investment income	5,654	12,047
Accounts payable and accrued liabilities	(14,339)	(655)
	(8,685)	11,392
	\$ 673,885	\$ 866,755

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling \$54,485 (2007: \$nil).

(b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.3% per annum (2007: 5.2% per annum). The following term structure of these securities as at December 31, 2008 was based on the principal amount:

	2008	2007
	%	
under 1 year	4	5
1 to 5 years	33	27
6 to 10 years	24	35
11 to 20 years	17	13
over 20 years	22	20
	100	100

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Canadian Equities

December 31, 2008

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 9,050	\$ 2,642
Public equities (a) (b)		
Consumer discretionary	23,623	29,065
Consumer staples	13,830	11,602
Energy	107,109	142,650
Financials	114,511	159,018
Health care	1,007	1,647
Industrials	24,155	29,936
Information technology	13,037	27,304
Materials	62,967	83,623
Telecommunication services	26,062	33,178
Utilities	5,093	5,067
	391,394	523,090
Pooled investment funds	13,153	22,244
Private Equity Pool	-	1,194
Receivable from sale of investments and accrued investment income	7,567	4,310
Accounts payable and accrued liabilities	(10,273)	(1,993)
	(2,706)	2,317
	\$ 410,891	\$ 551,487

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling \$168,883 (2007: \$198,852).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in United States Equities

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 3,249	\$ 4,421
Public equities (a) (b)		
Consumer discretionary	23,947	30,193
Consumer staples	33,268	30,330
Energy	34,698	38,643
Financials	40,602	56,390
Health care	41,144	38,615
Industrials	32,186	38,047
Information technology	43,155	52,589
Materials	9,424	12,248
Telecommunication services	9,990	10,532
Utilities	12,169	12,538
	280,583	320,125
Pooled investment funds	154	652
Receivable from sale of investments and accrued investment income	3,707	1,312
Accounts payable and accrued liabilities	(3,655)	(7,624)
	52	(6,312)
	\$ 284,038	\$ 318,886

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in United States public equities includes the notional amount of U.S. equity index swap and futures contracts totalling \$248,110 (2007: \$222,163).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Non-North American Equities

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 10,091	\$ 6,580
Public equities (a) (b)		
Consumer discretionary	28,785	40,731
Consumer staples	34,821	25,304
Energy	29,910	30,966
Financials	61,551	76,506
Health care	33,890	24,588
Industrials	34,788	52,486
Information technology	18,107	23,611
Materials	20,105	30,523
Telecommunications services	29,813	29,082
Utilities	17,571	17,269
	309,341	351,066
Pooled investment funds	4,341	8,749
Receivable from sale of investments and accrued investment income	3,119	1,778
Liabilities for investment purchases	(3,068)	(4,631)
	51	(2,853)
	\$ 323,824	\$ 363,542

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Non-North American public equities includes the notional amount of EAFE equity index swap and futures contracts totalling \$97,351 (2007: \$77,740).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index. The following is a summary of the Plan's share of non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2008	2007
	(\$ thousands)	
Japan	\$ 74,699	\$ 63,926
United Kingdom	62,357	69,442
France	35,151	37,927
Germany	26,139	35,078
Switzerland	24,635	24,251
Spain	14,015	14,094
Australia	13,998	15,391
Italy	10,460	12,039
Netherlands	9,987	15,406
Hong Kong	6,059	7,306
Other	31,841	56,206
	\$ 309,341	\$ 351,066

Schedule E

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Real Estate

	Plan's Share	
	2008	2007
	(\$ thousands)	
Deposits and short-term securities	\$ 384	\$ 192
Real estate (a)		
Office	78,991	77,509
Retail	50,804	54,533
Industrial	27,496	25,019
Residential	10,680	9,581
	167,971	166,642
Pooled investment funds	5,953	6,266
Accrued income and accounts receivable	1,202	82
	\$ 175,510	\$ 173,182

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2008	2007
	(\$ thousands)	
Ontario	86,116	89,932
Alberta	63,645	58,948
Quebec	14,577	14,281
British Columbia	3,633	3,481
	\$ 167,971	\$ 166,642

TEN-YEAR PLAN SUMMARY (UN-AUDITED)

MEPP Ten-year Plan Summary
 as at December 31, 2008

	(\$ thousands)									
	2008	2007 ^A	2006	2005	2004	2003	2002	2001	2000	1999
Change in net assets										
Income										
Investment income (loss)	\$ (411,196)	\$ 65,059	\$ 279,150	\$ 227,795	\$ 163,484	\$ 190,938	\$ (76,107)	\$ (64,883)	\$ 118,341	\$ 207,667
Contributions	131,406	114,463	104,003	86,003	66,663	56,297	46,230	42,361	38,983	36,336
Total Income	(279,790)	179,522	383,153	313,798	230,147	247,235	(29,877)	(22,522)	157,324	244,003
Expenditures										
Benefits paid	103,672	93,819	84,937	76,873	68,145	61,296	54,714	48,476	43,160	38,232
Refunds to members	8,405	5,987	4,653	1,900	2,117	1,143	1,603	1,247	1,415	1,554
Transfers to (from) other plans	(8,752)	(985)	(322)	(953)	186	170	293	683	(243)	66,278
Additional Government contribution	-	(40,000)	-	-	-	-	-	-	-	-
Investment expenses ^A	5,945	5,081	3,958	3,368	3,208	1,930	1,868	1,748	1,496	1,457
Member Service expenses	1,375	1,212	1,207	1,416	1,427	1,363	1,105	686	487	581
Total expenditures	110,645	65,114	94,433	82,604	75,083	65,902	59,583	52,840	46,315	108,102
Increase (decrease) in net assets	(390,435)	114,408	288,720	231,194	155,064	181,333	(89,460)	(75,362)	111,009	135,686
Net Assets										
Investments										
Short-term	8,706	10,780	11,844	11,941	29,865	17,784	9,889	27,737	33,016	3,335
Fixed income securities	665,179	855,975	788,921	741,675	640,618	567,255	529,924	544,517	619,941	569,897
Equities										
Canadian	410,891	551,487	494,753	473,466	449,245	423,513	354,208	457,113	469,248	494,928
United States	284,038	318,886	354,435	282,183	249,229	230,224	212,193	445,930	428,950	378,355
Non-North American	323,824	363,542	374,427	313,927	269,192	255,251	210,579	-	-	-
Real Estate	175,510	173,182	157,730	126,796	83,191	72,912	69,780	-	-	-
Alternative Investments	92,307	78,054	55,875	-	-	-	-	-	-	-
Total Investments	1,960,455	2,351,906	2,237,985	1,949,988	1,721,340	1,566,939	1,386,573	1,475,297	1,551,155	1,446,515
Contribution and other receivables	11,021	9,694	8,988	8,282	5,779	5,215	4,716	4,769	4,318	3,234
Liabilities	(611)	(300)	(81)	(98)	(141)	(240)	(708)	(25)	(70)	(5,355)
Net Assets available for benefits	1,970,865	\$2,361,300	\$2,246,892	\$1,958,172	\$1,726,978	\$1,571,914	\$1,390,581	\$1,480,041	\$1,555,403	\$1,444,394
Actuarial value of accrued benefits	2,539,439	2,445,641	2,253,657	2,124,067	1,995,079	1,861,928	(1,692,549)	(1,474,703)	(1,384,545)	(1,311,675)
Surplus (Deficiency)	(568,574)	(84,341)	(6,765)	(165,895)	(268,101)	(290,014)	(301,968)	5,338	170,858	132,719
Funded Ratio (%)	78	97	100	92	87	84	82	100	112	110
Performance (%)										
Long-term goal	6.75	6.75	6.75	6.75	6.75	6.75	7.0	7.25	7.25	7.25
Rate of return-nominal	(17.6)	2.7	14.0	13.1	10.2	13.7	(5.3)	(4.4)	8.1	16.0
Benchmark	(14.4)	2.6	13.2	11.9	10.0	12.8	(5.6)	(4.1)	7.0	13.4
Consumer Price Index (Canada)	1.2	2.4	1.6	2.2	2.1	2.0	3.9	0.7	3.2	2.5
Real rate of return	(18.8)	0.3	12.4	10.9	8.1	11.7	(9.2)	(5.1)	4.9	13.5
Interest Rates (%)										
Bank of Canada	1.50	4.25	4.25	3.25	2.75	2.75	3.00	2.50	6.00	5.00
US Federal Reserve	0.25	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50
Market Indices (%)										
S&P/TSX (\$Cdn)	(33.0)	9.8	17.3	24.1	14.5	26.8	(12.4)	(12.6)	7.4	31.7
S&P 1500 (\$Cdn) ^{AA}	(21.6)	(10.6)	15.3	1.6	3.3	5.3	(22.9)	(6.4)	(5.8)	14.2
MSCI EAFE (\$Cdn)	(29.8)	(5.7)	26.0	10.0	12.0	13.3	(16.8)	(16.5)	(11.2)	20.0
DEX Universe Bond Index ^{AAA}	6.4	3.7	4.1	6.5	7.1	6.7	8.7	8.1	10.3	(1.1)
Participants ^{AAAA}										
Active members	5,244	4,868	4,654	4,447	4,206	4,029	3,665	3,405	3,373	3,003
Inactive members	675	733	789	756	731	770	873	929	861	1,032
Retirees	2,905	2,684	2,446	2,211	2,016	1,837	1,669	1,480	1,329	1,183
Total	8,824	8,285	7,889	7,414	6,953	6,636	6,207	5,814	5,563	5,218
Average age of Active members (years) ^{AAAAA}	48.90	48.90	48.90	48.90	48.90	48.90	48.90	49.00	47.80	48.10
Average age of Pensioners (years)	64.70	64.70	64.70	64.70	64.10	62.10	62.10	61.10	61.10	61.10
Average annual pension amount	\$ 36,780	\$ 36,000	\$ 35,508	\$ 34,977	\$ 35,061	\$ 34,572	\$ 34,476	\$ 34,476	\$ 33,564	\$ 33,564
Contribution Rates (%)										
Employees	10.50	10.50	10.50	10.50	9.50	9.50	7.75	7.75	7.75	7.00
Employers	18.00	18.00	18.00	18.00	13.10	13.10	10.75	10.75	10.75	8.00
Unfunded liability	-	-	-	-	-	-	-	-	-	3.50
Annual COLA pension adjustment	2.94	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32	0.66

^A Comparative figures have been restated to be consistent with 2007 presentation.^{AA} S&P 500 for 2005 and prior years.^{AAA} Scotia Capital Fixed Income Indices for 2006 and prior years.^{AAAA} Participant counts may differ from the actuarial valuation results due to timing differences and treatment of inactive member accounts.^{AAAAA} Updated in years when actuarial valuations are performed.

2009 DIRECTORY

Board Members

Employee Nominees

Blake Bartlett, Vice-Chair

Scott Kashuba

David Lawson

Government Nominees

Nancy Bochar

Roderick McDermid, Chair

Don Smallwood

Public Service Commissioner Nominee (non-voting)

Jan Lorce Symon

Investment Committee

Joe Doolan*

Jim Hinks*

David Lawson, Chair

Don Smallwood, Vice-Chair

(*external member)

Plan Board Manager

Fiona Sonuga

Advisors and Suppliers

Administrator: Alberta Pensions Administration Corporation (APA)

Fund Management: Alberta Investment Management Corporation (AIMCo)

Auditor: Auditor General of Alberta

Actuary: Aon Consulting Inc.

Investment Consultant: API Asset Performance Inc.

Contact Us

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